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July 2, 2007

Margaret Smith, Interim Director
Public Health Department
351 North Mt. View Avenue
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**SUBJECT: Department of Public Health – Ryan White Care Act, Title I Follow Up
Audit Results**

Introductory Remarks

In compliance with Article V, Section 6 of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, we performed a follow-up audit with the Department of Public Health (Department) for the issues included in Vavrinek, Trine, Day & Co., LLP (VTD) June 30, 2005 Single Audit Report.

Scope of Audit

The audit was conducted to determine whether the Department implemented the recommendation listed on the Single Audit report / Corrective Action Plan dated June 30, 2005 issued by VTD, for finding 2005-09 and 2005-10. Specifically, whether:

1. Subrecipient monitoring policies and procedures were implemented;
2. On-site fiscal monitoring visits were conducted or if subrecipients were required to submit supporting documentation with expenditure invoices;
3. The Department implemented policies and procedures to ensure reimbursement requests are accurate, complete, reviewed, and that funds are not withdrawn in advance ensuring compliance with Federal cash management principles; and,
4. The interest earned on the funds drawn down in advance were remitted to the Federal Agency.

We reviewed the Department's fiscal monitoring files and tested the nine subrecipients that did not have fiscal monitoring site visits during FY 04-05 to ensure compliance with OMB Circular A-133 subrecipient monitoring compliance requirements. To attest that drawdown requests are submitted accurately, completely, and that funds were withdrawn in compliance with cash management principles, we reviewed the draw down

requests that occurred on August 15, 2006 and November 15, 2006. To determine if the department reported / reimbursed the Federal agency for the interest accrued on the funds that were drawn down in advance, we reviewed the warrant issued, and the supporting documentation that determined how much interest was accrued. In addition we reviewed the Department's subrecipient monitoring and drawdown policies and procedures.

A draft report was sent to the Department on September 4, 2007 and was discussed with management on September 6, 2007. The department's responses to our recommendations are included in this report.

Conclusion

As a result of our review, we concluded the Department was in process of, but had not completely implemented the recommendations by VTD. During our follow-up audit the Department prepared, approved and implemented subrecipient monitoring and draw down policies and procedures.

Finding 1: Follow-up on Single Audit Finding 2005-9 (Compliance Requirement – Subrecipient Monitoring)

In accordance with the March 2004 OMB Circular A-133 Compliance Supplement with regards to the Subrecipient Monitoring compliance requirements, a pass-through entity is responsible for "During-The-Award-Monitoring" which includes following-up on deficiencies to ensure corrective action was taken by subrecipients.

The VTD report disclosed OMB Circular A-133 subrecipient monitoring requirements were not always met. It was recommended the Department subrecipient monitoring policies and procedures be implemented and on-site fiscal monitoring visits be conducted, or subrecipients submit supporting documentation with expenditure invoices.

The following conditions were noted during the course of conducting our testwork for subrecipient monitoring compliance:

- Two fiscal monitoring reports were issued to subrecipients without the program coordinator's signature.
- Corrective action plans to address fiscal monitoring findings were not followed-up on a timely basis. One subrecipient did not submit a corrective action plan and three subrecipients did not respond with a corrective action plan on a timely basis. In addition follow-up monitoring visits were not conducted on findings that could result in noncompliance to Circular A-133 allowable costs and subrecipient monitoring compliance requirements. The Department initially did not have fiscal monitoring procedures established, however during the course of the audit the department completed and implemented the procedures which addressed following-up on corrective action plans.

Finding 1: **Follow-up on Single Audit Finding 2005-9 (Compliance Requirement – Subrecipient Monitoring) - *Continued***

When the Public Health Department's "Contracts and Special Projects Unit" (CSPU) assumed the responsibility of fiscal monitoring there was no policies and procedures in place to monitor findings and corrective action plans.

Without timely following up on fiscal monitoring findings the risk of noncompliance to OMB Circular A-133 allowable costs and subrecipient monitoring compliance requirements exists.

Recommendation:

The Department Director should:

- ensure recently established fiscal monitoring policies and procedures, which include procedures for following-up on corrective action plans, are implemented;
- maintain records to show supervisory reviews and approvals on fiscal monitoring reports being issued to subrecipients to determine the adequacy of the monitoring visit; and,
- maintain corrective action plans submitted by subrecipients to determine if they are acceptable, and if a follow-up monitoring visit is required.

Management's Response:

"The Department agrees with the finding. On February 15, 2007, the Department implemented a policy regarding the monitoring of sub-recipients. This policy includes delineation of the proper review and approval of reports and guidelines regarding appropriate timeliness for report dissemination and follow-up.

Monitoring reports are now reviewed and approved by multiple supervisors. Also corrective action plans are reviewed and follow up visits are taking place if necessary."

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

Finding 2: **Follow-up on Single Audit Finding 2005-10 (Compliance Requirement – Cash Management / Period of Availability)**

In accordance with the March 2004 OMB Circular A-133 Compliance Supplement, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. Interest

Finding 2: Follow-up on Single Audit Finding 2005-10 (Compliance Requirement – Cash Management / Period of Availability) - Continued

earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. In regards to Period of Availability of Federal Funds compliance requirements, when a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

The VTD report disclosed the OMB Circular A-133 requirements for drawdown were not always followed. It recommended the Department implement policies and procedures to ensure reimbursement requests are accurate, complete, reviewed and that funds are not withdrawn in advance ensuring compliance with Federal cash management principles, in addition if the interest earned on the advances were remitted to the Federal Agency.

Our audit of the two quarterly drawdown requests selected for testwork, disclosed the following:

- The Department's 4th quarter drawdown on August 15, 2006 consisted of approximately \$806,253 that was applied to the Ryan White Care Act (RWCA) FY 06-07 grant that could not be supported.

The Department was improperly drawing down for encumbrances versus actual expenses in previous fiscal years which resulted in funds being advanced. The advance was not deducted on the drawdown and the supervisory review process did not ensure only actual expenses were applied to the FY 06-07 RWCA grant which caused more than actual expenses to be reported on the 4th quarter draw down request.

When expenses are not submitted on a reimbursement basis and to the corresponding funding period, the Department jeopardizes compliance with OMB Circular A-133 cash management and period of availability compliance requirements.

Recommendation:

The Department Director should strengthen the supervisory review process to ensure draw down requests are on a reimbursement basis and expenses are applied to the corresponding grant to ensure compliance with OMB Circular A-133 compliance requirements. In addition the Department should determine whether interest was earned on the advance; and, if so, promptly submit any interest earned to the Federal agency.

Auditor met with the Department on May 17, 2007 and noted they are taking the appropriate steps to correct the conditions noted in the quarterly drawdown requests to ensure they are submitted on a reimbursement basis.

**Finding 2: Follow-up on Single Audit Finding 2005-10 (Compliance Requirement
– Cash Management / Period of Availability) - Continued**

Management's Response:

"The Department agrees with the finding. On February 15, 2007 the Department implemented a policy regarding the proper procedures for Drawing Down Federal Funds. This policy was then amended on August 24, 2007. The amended policy delineates that the Chief Financial Officer of the Department will be responsible for reviewing and approving the Draw Down amount to assure that only actual expenditures are being requested and consequently no cash advances take place. The policy also identifies that interest earned will be identified and reimbursed to the Federal Agency within 45 days. The Department will calculate the interest and process a payment no later than October 19, 2007."

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

We would like to express our appreciation to VTD and Public Health staff for their support and cooperation during the audit.

Respectfully submitted,

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Auditor/Controller-Recorder

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